ORIGINAL

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

RICHARD HRENIUK, Derivatively on Behalf of VIRBAC CORPORATION

Plaintiff,

vs.

THOMAS L. BELL, PASCAL BOISSY, ERIC MAREE, PIERRE PAGES, D.V.M., ALEC L. POITEVINT, II, JEAN N. WILLK and JOSEPH A. ROUGRAFF,

Defendants,

-and-

VIRBAC CORPORATION, a Delaware Corporation,

Nominal Defendant.

Case No. ___________

4-04CV-133-Y

U.S. DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
FILED
FEB 19 2004
CLERK, U.S. DISTRICT COURT
By ____________
Deputy

JURY TRIAL DEMAND

VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTIES, ABUSE OF CONTROL, GROSS MISMANAGEMENT, WASTE OF CORPORATE ASSETS, UNJUST ENRICHMENT, BREACH OF FIDUCIARY DUTIES FOR INSIDER SELLING AND MISAPPROPRIATION OF INFORMATION AND FOR VIOLATIONS OF THE SARBANES-OXLEY ACT OF 2002

NATURE OF THE ACTION

1. This is a shareholder derivative action brought in the right of, and for the benefit of, nominal defendant Virbac Corporation ("Virbac" or the "Company") against its Board of Directors (the "Board") and certain top officers to remedy defendants' breaches of fiduciary duties and other violations of law which have inflicted millions of dollars in damages upon Virbac's reputation, goodwill and standing in the business community and have exposed it to millions of dollars in potential liability for violations of state and federal law. This action arises out of defendants' causing Virbac to file false financial statements and to issue misleading statements between May 3, 2001 and November 12, 2003 (the "Relevant Period"), resulting in the Company being forced to restate its financial results for the entire two-and-a-half year period. Defendants' misconduct has caused severe, irreparable, injury and damages to the Company, particularly to its reputation and goodwill in the investment and business community, and has virtually destroyed this once valuable franchise.

SUMMARY OF THE ACTION

2. On November 12, 2003, after the close of the market, Virbac announced that it would delay the release of its results for the quarter and nine months ended September 30, 2003, as well as the filing of its corresponding quarterly report of Form 10-Q with the Securities and Exchange Commission ("SEC") pending completion of an internal inquiry being conducted by the Audit Committee of the Board. The Company further announced that during the course of their quarterly review, the Company's outside auditors raised questions related to certain of the Company's revenue recognition practices and inventory accounting practices. The Company also announced the Audit Committee has retained outside counsel to conduct an internal inquiry into the matters raised and that it had advised the SEC of this development.

3. On this news, the Company's stock fell the next day by 22% or $1.85 per share before trading was halted by Nasdaq at 10:46 a.m., eastern time. The Company's stock price was $6.50 per share when trading was halted by Nasdaq and trading remains halted.

4. On November 24, 2003, Virbac, admitting its prior financial statements had been materially false and misleading, announced that it would restate its financial results for Fiscal Years ("FY") 2001, 2002 and the first two quarters of FY 2003 due to the questions raised by its auditors. The Company also announced that Nasdaq intended to delist the Company's common stock due to the Company's failure to file its quarterly report on Form 10-Q for the period ended September 30, 2003. As a result, Nasdaq changed the Virbac's trading symbol from "VBAC" to "VBACE" to reflect the Company's filing delinquency.

5. On December 18, 2003 the Company announced preliminary estimates for the third quarter of FY 2003 and restated FY 2001, 2002 and for the six months ended June 30, 2003. The Company estimated that through admittedly improper revenue recognition it had overinflated revenue by $7.5 million and net income by $3.1 million during the restated period by, *inter alia*:

(1) Improperly recognizing revenue on certain products that had been returned or destroyed after their shelf life had expired;

(2) Improperly recognizing revenue on products that had been shipped to wholesalers at the ends of several fiscal quarters, but held for delivery until several days into the succeeding quarters, even thought applicable accounting rules required that the revenue be recorded in the quarter in which the products were actually delivered rather than when they were shipped; and

(3) Improperly recognizing revenue at the time of shipment relating to certain shipments that, under applicable accounting rules, should have been accounted for as consignments of the product, with the revenue recorded as of the time of payment rather than a the time of shipment.

6. In addition, in its December 18, 2003 announcement, the Company cautioned that the

foregoing restated results were preliminary and that the estimates could change following further review by the Company's accounting staff and as further information was developed by the Audit Committee's inquiry and that such changes could be significant. The Company also warned that none of the estimated restated results had been reviewed by the Company's independent auditors. The Company also emphasized that its prior guidance on earnings for the year ending December 31, 2003 should no longer be relied upon. Finally, the Company announced that Thomas L. Bell ("Bell") had taken a voluntary leave of absence, with pay, from his positions as Chief Executive Officer ("CEO") and member of the Board pending completion of the Audit Committee's inquiry.

7. As now evidenced by the restatement, at all times during the Relevant Period, the defendants issued false and misleading financial statements and press releases concerning Virbac's financial results that they knew, or should have known based on facts then available to them, were materially false when issued. The financial reports and projections issued by the Company during the Relevant Period, all of which implicitly and/or expressly were prepared in conformity with Generally Accepted Accounting Principals ("GAAP"), were materially false and misleading because defendants caused the Company to overstate its earnings and financial condition.

8. As a direct result of this illegal course of conduct, the Company has been exposed to millions of dollars in potential liability for violations the nation's accounting and securities laws and regulations and has been named in numerous federal securities class action lawsuits filed in the United States District Court for the Northern District of Texas, Fort Worth Division, on behalf of investors who purchased Virbac's shares. These lawsuits allege that investors purchased shares of the Company based on false and materially misleading statements regarding the financial condition of the Company and that they have been significantly damaged thereby. Specifically, those actions

allege that defendants caused Virbac to issue materially false and misleading statements during the Relevant Period because they failed to disclose and/or misrepresented the following adverse facts, among others: (1) that Virbac had materially overstated its net income and earnings per share; (2) that Virbac had materially overstated its inventory; (3) that Virbac's financial results were in violation of GAAP; (4) that Virbac lacked adequate internal controls and was therefore unable to ascertain the true financial condition of the Company; and (5) that as a result, the value of Virbac's financial results were materially overstated at all relevant times.

JURISDICTION AND VENUE

9. This Court has jurisdiction over this action pursuant to 28 U.S.C. §1332 (a)(2) in that plaintiff and defendants are citizens of different of different states and the matter in controversy exceeds $75,000, exclusive of interest and costs. This Court also has jurisdiction over this action pursuant to 28 U.S.C. § 1331 in that plaintiff's claims arise in part under the Constitution and laws of the United States, including the Sarbanes-Oxley Act of 2002. This Court has supplemental jurisdiction pursuant to 28 U.S.C. § 1367(a).

10. This action is not a collusive one designed to confer jurisdiction on a court of the United States which it would not otherwise have.

11. Venue is proper in the Court because nominal defendant Virbac is headquartered in this District and thus a substantial portion of the transactions and wrongs complained of herein, including the defendants' primary participation in the wrongful acts detailed herein, occurred in this District. One or more of the defendants either resides in or maintains executive offices in this District, and defendants have received substantial compensation in this District by engaging in numerous activities and conducting business here, which had an effect in this District.

PARTIES

12. Plaintiff Richard Hreniuk is, and was at all relevant times complained of herein, a shareholder of nominal defendant Virbac. Hreniuk is a citizen of New York.

13. Nominal defendant Virbac is a Delaware corporation with its principal executive offices located at 3200 Meacham Boulevard, Fort Worth, Texas, 76137. Virbac develops, manufactures, markets, distributes and sells a variety of pet and companion animal health products, focusing on dermatological, parasiticide, and dental products. Some of the Company's products are manufactured and distributed under license from Virbac S.A., a French veterinary pharmaceutical manufacturer, which, since 1999, has indirectly owned approximately 60% of the Company. As identified in the Company's most recent Proxy Statement:

> The Company has significant transactions with Virbac S.A., which indirectly owns approximately 61% of the Company's stock. The transactions with Virbac S.A. and its related affiliates for the year ended December 31, 2002 are summarized below.
>
> - The Company purchased raw materials and finished goods in the amount of $.06 million.
> - The Company had sales in the amounts of $1.4 million.
> - The Company has an agreement with Virbac S.A., giving the Company the exclusive U.S. and Canadian rights to manufacture and sell products currently in development and previously developed by Virbac S.A. In 2002, the Company paid a royalty ranging from 2.5% to 6%, or $0.1 million, on Virbac S.A. developed products sold by the Company.

14. Defendant Bell was, at all relevant times, a director of Virbac, its President and CEO. As a director of Virbac, Bell owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as President and CEO, Bell had also assumed important managerial responsibilities at Virbac which required him to be well

informed about the day-to-day operations of the Company. Rather than fulfill these important fiduciary duties Bell owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Bell signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. For FY:02 and FY:01, Virbac paid defendant Bell $300,850 and $226,500, respectively, in salary, bonus and other compensation, and granted him 18,000 options to purchase Virbac stock each year. Bell is a citizen of Texas.

15. Defendant Pascal Boissy ("Boissy") was, at all relevant times, a director, Chairman of Virbac and a member of its Audit Committee. As a director of Virbac, Boissy owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Audit Committee, Boissy had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as a member of the Audit Committee, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Boissy owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. During the Relevant Period, Boissy engaged in insider trading disposing of 23,000 shares of Virbac stock for

proceeds of $129,231. Boissy signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. Moreover, as a member of Virbac's Audit Committee, Boissy was directly responsible for approving the Company's financial statements, so Boissy is a direct participant in the wrongdoing. Boissy held numerous positions with Virbac S.A. from 1973 through 1999 including serving as its President and Chairman from April 1992 until the end of 1999. Boissy is a citizen of France.

16. Defendant Eric Maree ("Maree") was, at all relevant times, a director of Virbac. As a director of Virbac, Maree owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Rather than fulfill these important fiduciary duties Maree owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Maree signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. Maree joined Virbac S.A. in October 1999 and was appointed its Chairman of the Board of Management, effective December 15, 1999. Maree is a citizen of France.

17. Defendant Pierre Pages, D.V.M. ("Pages") was, at all relevant times, a director of Virbac and a member of its Compensation Committee. As a director of Virbac, Pages owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Compensation Committee, Pages had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company. Rather than fulfill these important fiduciary duties Pages

owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Pages signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. Pages has held numerous positions with Virbac S.A. including serving as its Chief Operating Officer since 1999 and has been a member of its Director Board since 1992. Pages is a citizen of France.

18. Defendant Alec L. Poitevint, II ("Poitevint") was, at all relevant times, a director of Virbac and a member of its Audit and Compensation Committees. As a director of Virbac, Poitevint owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Audit and Compensation Committees, Poitevint had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as a member of the Audit Committee, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Poitevint owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Poitevint signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. Moreover, as a member of Virbac's Audit Committee,

Poitevint was directly responsible for approving the Company's financial statements, so Poitevint is a direct participant in the wrongdoing. Poitevint is a citizen of France.

19. Defendant Jean N. Willk ("Willk") was, at all relevant times, a director of Virbac and a member of its Audit Committee. As a director of Virbac, Willk owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as a member of its Audit Committee, Willk had also assumed important managerial responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as a member of the Audit Committee, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Willk owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Willk signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. Moreover, as a member of Virbac's Audit Committee, Willk was directly responsible for approving the Company's financial statements, so Willk is a direct participant in the wrongdoing. Willk is a citizen of New Jersey.

20. Defendant Joseph A. Rougraff ("Rougraff") was, at all relevant times, Vice President and Chief Financial Officer ("CFO") of Virbac. As an officer of Virbac, Rougraff owed a duty to the Company and its shareholders to be reasonably informed about the business and operations of the Company. Moreover, as Vice President and CFO, Rougraff had also assumed important managerial

responsibilities at Virbac which required him to be well informed about the day-to-day operations of the Company, particularly, as CFO, with respect to the Company's internal systems of accounting controls and procedures, and ensuring the Company's financial statements complied with GAAP. Rather than fulfill these important fiduciary duties Rougraff owed to Virbac and its shareholders he, upon information and belief, actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to the shareholders of Virbac by purposefully, recklessly and/or negligently disregarding these wrongful acts or omissions. Rougraff signed the Company's materially false and misleading Annual Reports on Form 10-K for both FY 2001 and FY 2002. For FY:02 and FY:01, Virbac paid defendant Rougraff $173,956 and $139,514, respectively, in salary, bonus and other compensation, and granted him 4,200 and 4,000 options to purchase Virbac stock, respectively. Rougraff is a citizen of Texas.

21. The defendants identified above in ¶¶ 14-20 are collectively referred to hereinafter as the "Individual Defendants." For demand futility purposes, the defendants identified in &&14-19, who make up the current Board of Virbac, are referred to as the "Director Defendants." The defendant identified in &15 is referred to as the "Insider Selling Defendant."

FACTUAL ALLEGATIONS

22. On November 12, 2003, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Delays Filing of Its Third-Quarter Results." The press release stated in part:

> Virbac Corporation, a leading companion animal health company, announced today that it will delay the release of its results for the quarter and nine months ended September 30, 2003, as well as the filing of its corresponding quarterly report on

Form 10-Q with the Securities and Exchange Commission pending completion of an internal inquiry being conducted by the Audit Committee of the Company's Board of Directors.

During the course of their quarterly review, the Company's outside auditors, PricewaterhouseCoopers, raised questions relating to certain of the Company's revenue recognition practices and inventory accounting practices. As a result, the Audit Committee has retained outside counsel to conduct an internal inquiry in response to the issues raised by PricewaterhouseCoopers. The Audit Committee has advised the SEC of this development, and the Audit Committee and the Company will fully cooperate with the government in any proceedings that may relate to this matter.

The Company is unable to predict at this time when the Audit Committee's inquiry will be completed or when the Company will be in a position to report its third quarter financial results and file its corresponding quarterly report on Form 10-Q. The Company must await the completion of further work on the inquiry to be able to determine the effect of these accounting issues on its historical and current financial statements.

23. On this news, the Company's stock collapsed the next day falling 22% or $1.85 per share before trading was halted by Nasdaq at 10:46 a.m., eastern time. The Company's stock price was $6.50 per share when trading was halted by Nasdaq and trading remains halted.

24. On November 24, 2003, Virbac, admitting its prior financial statements had been materially false and misleading, announced that it would restate its financial results for FY 2001, 2002 and the first two quarters of FY 2003 due to the questions raised by PricewaterhouseCoopers relating to certain of the Company's revenue recognition practices and inventory practices. The Company also announced that Nasdaq intended to delist the Company's common stock due to the Company's failure to file its quarterly report on Form 10-Q for the period ended September 30, 2003. On this date, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation Expects to Restate Prior Results. Company Also Receives Notice of Intended Delisting of Common Stock by Nasdaq Stock Market Because in Delay in Filing Third Quarter Report." The

press release stated in part:

> ***Virbac Corporation announced today that, based upon information developed thus far in the ongoing inquiry conducted by the Audit Committee of its Board of Directors, the Company expects to issue revised financial statements for the years ended December 31, 2001 and 2002 and for the quarters ended March 31 and June 30, 2003 and that its previously issued financial statements for these periods should no longer be relied upon.***
>
> On November 12, 2003 the Company announced that it would delay the filing of its Quarterly Report on Form 10-Q for the quarter and nine months ended September 30, 2003 pending completion of an internal inquiry being conducted by the Audit Committee as a result of questions raised by the Company's independent auditors relating to certain of the Company's revenue recognition practices and inventory accounting practices. The inquiry has not, however, progressed sufficiently to enable the Company to estimate at this time the amounts by which the restated results will vary from the previously reported results. The Company intends to provide preliminary estimates of such amounts as soon as practicable.
>
> Separately, the Company announced that the Nasdaq Stock Market, which on November 13, suspended trading in the Company's common stock, has notified the Company that it intends to delist the company's common stock for failure to comply with Marketplace Rule 4310(c)(14) due to the Company's failure to file its quarterly report on Form 10-Q for the period ended September 30, 2003. As a result, Nasdaq has changed the Company's trading symbol from "VBAC" to "VBACE" to reflect the Company's filing delinquency. The Nasdaq notification stated that the Company's common stock will be delisted and cease trading at the opening of business on November 26, 2003, unless the Company requests a hearing with the Nasdaq Hearings Department. The Company has requested such a hearing.
>
> If the Company's common stock is delisted, the shares will not be immediately eligible to trade on the OTC Bulletin Board because the Company is not current in all of its periodic reporting requirements under the Securities Exchange Act of 1934.

25. Finally, on December 18, 2003 the Company estimated that through admittedly improper revenue recognition it had overinflated revenue by $7.5 million and net income by $3.1 million during the restated period. The Company also announced that defendant Bell had taken a voluntary leave of absence pending completion of the Audit Committee inquiry. On that date, the Individual Defendants caused the Company to issue a press release entitled "Virbac Corporation

Announces Preliminary Estimates of Third Quarter and Restated Prior Results." The press release stated in part:

> Virbac Corporation today released preliminary estimates of its third quarter and restated fiscal 2001 and 2002 results. The Company previously reported that it would delay the filing of its Quarterly Report on Form 10-Q for the three months ended September 30, 2003 pending the completion of an inquiry being conducted by the Audit Committee of its Board of Directors and that, based upon information obtained in that inquiry, it expects to issue revised financial statements for the years ended December 31, 2001 and 2002 and for the quarters ended March 31 and June 30, 2003. While the inquiry has not been completed, the Company provided the following preliminary estimates based upon information developed to date.
>
> The Company estimates that it will report net revenues of approximately $17.2 million and net loss of $1.0 million for the three months ended September 30, 2003. These estimated results were affected by an allowance for excess inventory recorded in the third quarter. At the same time, the Company estimates that it will report restated net revenues of approximately $56.3 million and $62.0 million for the years ended December 31, 2001 and 2002, respectively, as compared with net revenues of $60.6 million and $63.8 million as previously reported for the same respective periods. It further estimates that it will report restated net income of approximately $0.4 million and $2.1 million for the years ended December 31, 2001 and 2002, respectively, as compared with net income of $1.3 million and $3.4 million as previously reported for the same respective periods. Similarly, the Company estimates that its revised statements for the six months ended June 30, 2003 will report restated net revenues and net loss of approximately $33.1 million and $0.4 million, respectively, as compared with net revenues and net income of $34.5 million and $0.5 million as previously reported.
>
> ***The estimated restatements are the result of several factors, primarily relating to revenue recognition. One principal factor is the reversal of revenues relating to certain products that were subsequently returned or destroyed after their shelf lives had expired. A second significant factor concerns revenue relating to products shipped to a wholesaler at the ends of several fiscal quarters, but held for delivery until several days into the succeeding quarters. The Company has determined that this revenue should have been recorded in he quarter in which the products were actually delivered rather than when they were shipped. A third significant contributor relates to certain shipments that should have been accounted for as consignments of the product, with the revenue recorded as for the time of payment rather than at the time of shipment.*** The first and second contributors relate to the Company's veterinary division; the third relates to its PM Resources division. Other, less significant factors also contributed to the estimated restatements.

> ***The foregoing estimated restatements will result in a cumulative reduction in revenues of $7.5 million and a cumulative reduction in net income of $3.1 million from amounts previously reported for the two years and six months ended June 30, 2003. Of these amounts, $4.3 million of the cumulative reduction in revenues and $1.3 million of the cumulative reduction in net income are the result of timing differences in revenue recognition, as a result of which corresponding amounts are expected to be recognized in periods subsequent to June 30, 2003.***
>
> ***The Company cautioned that these estimates are preliminary and that the estimates could change following further review by the Company's accounting staff and as further information is developed in the Audit Committee's inquiry. Such changes could be significant. None of the estimated amounts, moreover, have been reviewed by the Company's independent auditors, and all restatement adjustments and reported results will be subject to their review and/or audit. The Company also emphasized that its prior guidance that it would earn between $0.16 and $0.18 per share for the years ending December 31, 2003 should no longer be relied upon.***
>
> The Company also announced that Thomas L. Bell has taken a voluntary leave of absence, with pay, from his positions as Chief Executive Officer and member of the Board of Directors, pending completion of the Audit Committee's inquiry. During Mr. Bell's absence, David Eller, a Houston, Texas-based executive with senior managerial experience in the pharmaceutical industry, will serve as the Company's Interim Chief Executive Officer.

IMPROPER FINANCIAL REPORTING DURING THE RELEVANT PERIOD

26. The Individual Defendants, particularly management and the members of the Audit Committee, were responsible for maintaining and establishing adequate internal controls for Virbac and to ensure that the Company's financial statements were based on accurate financial information. According to GAAP, to accomplish the objectives of accurately recording, processing, summarizing, and reporting financial data, a corporation must establish an internal accounting control structure. Among other things, the Individual Defendants were required under GAAP, to:

> (1) Make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and

(2) Devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(a) Transactions are executed in accordance with management's general and specific authorization; and

(b) Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles.

27. In addition, according to Appendix D to the Statement on Auditing Standards ("SAS") No. 55, management should consider, among other things, such objectives as: (a) making certain that "[t]ransactions are recorded as necessary ... to permit preparation of financial statements in conformity with generally accepted accounting principles ... [and] to maintain accountability for assets;" and (b) make certain that "[t]he recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences."

28. According to SAS 55.13:

> Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

29. In addition, Virbac's Audit Committee operates pursuant to an Audit Committee Charter which provides in part that "[t]he primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: (i) the financial reports and other financial information provided by the Corporation to any governmental body or the public; (ii) the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and (iii) the Corporation's auditing,

accounting and financial reporting processes generally."

30. The fact that Virbac will restate its financial statements for FY 2001 and 2002 and the first two quarters of FY 2003 is an admission that the financial statements originally issued were false when issued, and that the overstatement of revenues and income was material. Pursuant to GAAP, as set forth in Accounting Principles Board Opinion ("APB") No. 20, the type of restatement announced by Virbac was to correct for material errors in its previously issued financial statements. *See* APB No. 20, ¶¶ 7-13. The restatement of past financial statements is a disfavored method of recognizing an accounting change because it dilutes confidence by investors in the financial statements, it makes it difficult to compare financial statements, and it is often difficult, if not impossible, to generate the numbers when restatement occurs. *See* APB No. 20, ¶¶ 14. Thus, GAAP provides that financial statements should only be restated in limited circumstances, *i.e.*, when there is a change in the reporting entity, a change in accounting principles used, or to correct an error in previously issued financial statements. Virbac restatement was not due to a change in reporting entity or a change in accounting principles, but rather to errors in previously issued financial statements. Thus, the restatement is an admission by Virbac that its previously issued financial results and its public statements regarding those results were false and misleading based on facts which were known or should have been known at the time of their issuance.

31. GAAP states that "revenue should not be recognized until it is realized or realizable and earned." FASB Concepts Statement No. 5, ¶ 83. The conditions for the recognition of revenue are met when "persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price is fixed or determinable, collectibility of the sales price is reasonably assured and when the entity has substantially performed the obligations which entitle it to the

benefits represented by the revenue." Here, Virbac improperly recognized revenue when revenue from such transactions was not realizable and earned, which is in violation of GAAP.

32. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

a. The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶ 10);

b. The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶ 34);

c. The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, ¶ 40);

d. The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶ 50);

e. The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶ 42);

f. The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant in a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶ 58-59);

g. The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, ¶ 79); and

h. The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what is purports to represent (FASB Statement of Concept No. 2, ¶¶ 95, 97).

33. The Individual Defendants, particularly the Audit Committee, not only caused the Company to violate GAAP, but also caused the Company to violate its own Audit Committee Charter by failing to, among other things, properly implement, review, and oversee: (i) the financial reports and other financial information provided by the Corporation to any governmental body or the public; (ii) the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and (iii) the Corporation's auditing, accounting and financial reporting processes generally. The sheer magnitude of the length

of the restatement period - ten quarters - evidences that the Individual Defendants, and particularly the Audit Committee, utterly failed to establish and maintain adequate internal controls for Virbac to ensure that the Company's financial results were calculated and recorded in accordance with GAAP.

DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS

34. Plaintiff brings this action derivatively in the right and for the benefit of Virbac to redress injuries suffered, and to be suffered, by Virbac as a direct result of the breaches of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment, violations of the Sarbanes-Oxley Act of 2002 as well as the aiding and abetting thereof, by the Individual Defendants. Virbac is named as a nominal defendant solely in a derivative capacity. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

35. Plaintiff will adequately and fairly represent the interests of Virbac in enforcing and prosecuting its rights.

36. Plaintiff is and was an owner of the stock of Virbac during times relevant to the Individual Defendants' wrongful course of conduct alleged herein, and remains a shareholder of the Company.

37. The current Board of Directors of Virbac consists of the following individuals: defendants Bell, Boissy, Maree, Pages, Poitevint and Willk. Plaintiff has not made any demand on the present Board of Directors of Virbac to institute this action because such a demand would be a futile, wasteful and useless act, particularly for the following reasons:

a. Virbac has significant transactions with Virbac S.A. which indirectly owns approximately 61% of Virbac's common stock. A majority of the Board, defendants Pages, Boissy and Maree, have significant ties to both Virbac and Virbac S.A. which render them incapable of considering a pre-suit demand. The Company's most recent Proxy Statement describes the relation these defendants share with both Virbac and Virbac S.A.:

- PIERRE PAGES, D.V.M., has been a Director since March 1999. Dr. Pages has served as the Chief Operating Officer of Virbac S.A. since December 1999. From December 1996 to December 1999, he served as Executive Vice President in charge of Operations, Production, and Quality Assurance. From December 1992 to December 1996, Dr. Pages was Executive Vice President in charge of Operations. Prior to becoming Executive Vice President, Dr. Pages served as Director of International Operations from 1990 through 1995. Since December 1992, Dr. Pages has been a member of the Directory Board of Virbac S.A.

- PASCAL BOISSY has served as the Company's Chairman since March 1999. Mr. Boissy served as President and Chairman of Virbac S.A. from April 1992 until the end of 1999 and was responsible for the Company's merger with Agri-Nutrition Group in March 1999. From 1973 to April 1992, Mr. Boissy served Virbac S.A. in numerous management positions. Virbac S.A. is a French veterinary pharmaceutical manufacturer that indirectly owns approximately 61% of the Company's outstanding common stock. He served on Virbac S.A.'s Board of Directors from 1989 through 1999, and served as President and Chairman of the Board of Directors of various subsidiaries of Virbac S.A.

- ERIC MAREE has served as a Director since January 2000. Mr. Maree joined Virbac S.A. in October 1999 and was appointed its Chairman of the Board of Management, effective December 15, 1999.

Moreover, Boissy serves on Virbac's Audit Committee and Pages serves on its Compensation Committee. These long-standing business ties these defendants share between their service to both Virbac and Virbac S.A. render them incapable of objectively considering a pre-suit demand. Thus, any demand to institute this action on the Virbac Board would clearly be a futile, useless and wasteful act;

b. The Compensation Committee of the Board determines, after consulting with the CEO, establishes, authorizes and administers Virbac compensation policies, practices and plans for Virbac directors, executive officers and other key personnel. The Compensation Committee is comprised of defendants Pages and Poitevint. As the members of the Compensation Committee singularly control the other defendants' awards, the remaining members of the Board will not institute this action against defendants Pages and Poitevint. To do so would jeopardize each defendant's personal financial compensation. Thus, demand on defendants Bell, Boissy, Maree and Willk is futile;

c. The principal professional occupation of defendant Bell is his employment with Virbac, pursuant to which he receives and continues to receive substantial monetary compensations and other benefits. Specifically, for FY:02 and FY:01, Virbac paid defendant Bell $300,850 and $226,500, respectively, in salary, bonus and other compensation, and granted him 18,000 options to purchase Virbac stock each year. Accordingly, defendant Bell lacks independence from defendants Pages and Poitevint, who exert influence over their compensation by virtue of their position as members of the Compensation Committee. This lack of independence renders defendant Bell incapable of impartially considering a demand to commence and vigorously prosecute this action;

d. According to Virbac Proxy Statements filed with the SEC, Boissy, Poitevint and Willk served on the Audit Committee during the Relevant Period. The Audit Committee is responsible for reviewing the activities of Virbac internal auditors and independent accountants. The Audit Committee evaluates Virbac organization and its internal controls, policies, procedures and practices to determine whether they are reasonably designed to: provide for the safekeeping of Virbac assets; assure the accuracy and adequacy of Virbac records and financial statements; reviews

Virbac financial statements and reports; monitors compliance with Virbac internal controls, policies, procedures and practices; and receives direct compliance reports from Virbac internal auditors and General Counsel and from the independent accountants. Nonetheless, the Audit Committee recommended that the Board include the improper audited consolidated financial statements in Virbac Annual Reports for FY 2001-2002, and the first two quarters of FY 2003 as filed with the SEC. By such actions, these defendants breached their duties by causing or allowing the improper financials described above. As a result of these defendants' breach of their duties, any demand upon them is futile;

e. The entire Virbac Board and senior management participated in the wrongs complained of herein. Virbac directors are not disinterested or independent due to the following: defendants Bell, Boissy, Maree, Pages, Poitevint and Willk served on the Company's Board during the Relevant Period. Pursuant to their specific duties as Board members, each was charged with the management of the Company and to conduct its business affairs. Each of the above-referenced defendants breached the fiduciary duties that they owed to Virbac and its shareholders in that they failed to prevent and correct the improper financials. All of these defendants - the entire Board - signed the Company's false and misleading Annual Reports for FY's 2001 and 2002. Thus, the Virbac Board cannot exercise independent objective judgment in deciding whether to bring this action or whether to vigorously prosecute this action because its members are interested personally in the outcome as it is their actions that have subjected Virbac to millions of dollars in liability for possible violations of applicable accounting and securities laws;

f. The Director Defendants, because of their inter-related business, professional and personal relationships, have developed debilitating conflicts of interest that prevent the Board members of the Company from taking the necessary and proper action on behalf of the Company as requested herein. In addition to the conflicts that exist as a result of their participation in the improper accounting, as detailed herein *supra*, the majority of the Board, are subject to numerous prejudicial entanglements as described in ¶¶ 14-19, particularly with respect to their connections to both Virbac and Virbac S.A.;

g. The Director Defendants of Virbac, as more fully detailed herein, participated in, approved and/or permitted the wrongs alleged herein to have occurred and participated in efforts to conceal or disguise those wrongs from Virbac stockholders or recklessly and/or negligently disregarded the wrongs complained of herein, and are therefore not disinterested parties;

h. In order to bring this suit, all of the directors of Virbac would be forced to sue themselves and persons with whom they have extensive business and personal entanglements, which they will not do, thereby excusing demand;

i. The acts complained of constitute violations of the fiduciary duties owed by Virbac officers and directors and these acts are incapable of ratification;

j. Each of the Director Defendants of Virbac authorized and/or permitted the false statements disseminated directly to the public or made directly to securities analysts and which were made available and distributed to shareholders, authorized and/or permitted the issuance of various of the false and misleading statements and are principal beneficiaries of the wrongdoing alleged herein, and thus could not fairly and fully prosecute such a suit even if such suit was instituted by them;

k. Any suit by the current directors of Virbac to remedy these wrongs would likely expose the Individual Defendants and Virbac to further violations of the accounting and securities laws that would result in civil actions being filed against one or more of the Individual Defendants, thus, they are hopelessly conflicted in making any supposedly independent determination whether to sue themselves;

l. Virbac has been and will continue to be exposed to significant losses due to the wrongdoing complained of herein, yet the Individual Defendants and current Board have not filed any lawsuits against themselves or others who were responsible for that wrongful conduct to attempt to recover for Virbac any part of the damages Virbac suffered and will suffer thereby;

m. If the current directors were to bring this derivative action against themselves, they would thereby expose their own misconduct, which underlies allegations against them contained in class action complaints for violations of securities law, which admissions would impair their defense of the class actions and greatly increase the probability of their personal liability in the class actions, in an amount likely to be in excess of any insurance coverage available to the Individual Defendants. In essence, they would be forced to take positions contrary to the defenses they will likely assert in the securities class actions. This they will not do. Thus, demand is futile; and

n. If Virbac current and past officers and directors are protected against personal liability for their acts of mismanagement, abuse of control and breach of fiduciary duty alleged in this Complaint by directors' and officers' liability insurance, they caused the Company to purchase that insurance for their protection with corporate funds, *i.e.*, monies belonging to the stockholders of Virbac. However, due to certain changes in the language of directors' and officers' liability insurance policies in the past few years, the directors' and officers' liability insurance policies covering the defendants in this case contain provisions that eliminate coverage for any action brought directly by Virbac against these defendants, known as, *inter alia*, the "insured versus insured exclusion." As a result, if these directors were to sue themselves or certain of the officers of Virbac, there would be no directors' and officers' insurance protection and thus, this is a further reason why they will not bring such a suit. On the other hand, if the suit is brought derivatively, as this action is brought, such insurance coverage exists and will provide a basis for the Company to effectuate recovery. If there is no directors' and officers' liability insurance at all then the current directors will not cause Virbac to sue them, since they will face a large uninsured liability.

38. Moreover, despite the Individual Defendants having knowledge of the claims and causes of action raised by plaintiff, the current Board has failed and refused to seek to recover for Virbac for any of the wrongdoing alleged by plaintiff herein.

39. Plaintiff has not made any demand on shareholders of Virbac to institute this action since such demand would be a futile and useless act for the following reasons:

a. Virbac is a publicly held company with approximately 24.24 million shares outstanding, and thousands of shareholders;

b. Making demand on such a number of shareholders would be impossible for Plaintiff who has no way of finding out the names, addresses or phone numbers of shareholders; and

c. Making demand on all shareholders would force plaintiff to incur huge expenses, assuming all shareholders could be individually identified.

CAUSES OF ACTION

COUNT I

Against Defendants Bell and Rougraff for Violations of Sarbanes-Oxley Act of 2002

40. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

41. Pursuant to the Sarbanes-Oxley Act of 2002 § 304, because Virbac will be required to prepare an accounting restatement for FY 2001 and 2002 and the first two quarters of FY 2003 due to material noncompliance with GAAP, as a result of improper financial reporting, defendant Bell, as Virbac's CEO and defendant Rougraff, as Virbac's CFO, are required to reimburse Virbac for all bonuses or other incentive-based or equity-based compensation, received by them from Virbac from 2001 through the first two quarters of 2003, as identified herein.

42. Defendants Bell and Rougraff are also liable to plaintiff for reasonable costs and attorneys' fees in the prosecution of this derivative action on behalf of Virbac.

COUNT II

Against All Individual Defendants for Breach of Fiduciary Duty

43. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

44. The Individual Defendants owed and owe Virbac fiduciary obligations. By reason of their fiduciary relationships, the Individual Defendants owed and owe Virbac the highest obligation of good faith, fair dealing, loyalty and due care.

45. The Individual Defendants, and each of them, violated and breached their fiduciary

duties of care, loyalty, reasonable inquiry, oversight, good faith and supervision.

46. Each of the Individual Defendants had actual or constructive knowledge that they had caused the Company to improperly misrepresent the financial results of the Company and failed to correct the Company's publicly reported financial results and guidance. These actions could not have been a good faith exercise of prudent business judgment to protect and promote the Company's corporate interests.

47. As a direct and proximate result of the Individual Defendants' failure to perform their fiduciary obligations, Virbac has sustained significant damages. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company.

48. Plaintiff on behalf of Virbac has no adequate remedy at law.

COUNT III

Against All Individual Defendants for Abuse of Control

49. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

50. The Individual Defendants' misconduct alleged herein constituted an abuse of their ability to control and influence Virbac, for which they are legally responsible.

51. As a direct and proximate result of the Individual Defendants' abuse of control, Virbac has sustained significant damages.

52. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company.

53. Plaintiff on behalf of Virbac has no adequate remedy at law.

COUNT IV

Against All Individual Defendants for Gross Mismanagement

54. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

55. By their actions alleged herein, the Individual Defendants, either directly or through aiding and abetting, abandoned and abdicated their responsibilities and fiduciary duties with regard to prudently managing the assets and business of Virbac in a manner consistent with the operations of a publicly held corporation.

56. As a direct and proximate result of the Individual Defendants' gross mismanagement and breaches of duty alleged herein, Virbac has sustained significant damages in excess of hundreds of millions of dollars.

57. As a result of the misconduct and breaches of duty alleged herein, the Individual Defendants are liable to the Company.

58. Plaintiff on behalf of Virbac has no adequate remedy at law.

COUNT V

Against All Individual Defendants for Waste of Corporate Assets

59. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

60. As a result of the improper accounting, and by failing to properly consider the interests of the Company and its public shareholders by failing to conduct proper supervision, Defendants have caused Virbac to waste valuable corporate assets by paying incentive based bonuses to certain of its executive officers and incur potentially millions/billions of dollars of legal liability

and/or legal costs to defend Defendants' unlawful actions including defending the SEC and Justice Department investigations.

61. As a result of the waste of corporate assets, the Individual Defendants are liable to the Company.

62. Plaintiff on behalf of Virbac has no adequate remedy at law.

COUNT VI

Against All Defendants for Unjust Enrichment

63. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

64. By their wrongful acts and omissions, defendants were unjustly enriched at the expense of and to the detriment of Virbac.

65. Plaintiff, as a shareholder and representative of Virbac, seeks restitution from these defendants, and each of them, and seeks an order of this Court disgorging all profits, benefits and other compensation obtained by these defendants, and each of them, from their wrongful conduct and fiduciary breaches.

COUNT VII

Against the Insider Selling Defendant for Breach of Fiduciary Duties for Insider Selling and Misappropriation of Information

66. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

67. At the time of the stock sales set forth herein, the Insider Selling Defendant knew the information described above, and sold Virbac common stock on the basis of such information.

68. The information described above was proprietary non-public information concerning the Company's financial condition and future business prospects. It was a proprietary asset belonging to the Company, which the Insider Selling Defendant used for his own benefit when he sold Virbac common stock.

69. At the time of his stock sales, the Insider Selling Defendant knew that the Company's revenues were materially overstated. The Insider Selling Defendant's sales of Virbac common stock while in possession and control of this material adverse non-public information was a breach of his fiduciary duties of loyalty and good faith.

70. Since the use of the Company's proprietary information for their own gain constitutes a breach of the Insider Selling Defendant's fiduciary duties, the Company is entitled to the imposition of a constructive trust on any profits the Insider Selling Defendant obtained thereby.

PRAYER FOR RELIEF

WHEREFORE, plaintiff demands judgment as follows:

A. Against all of the Individual Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment;

B. Declaring that defendants Bell and Rougraff are liable under the Sarbanes-Oxley Act of 2002 and requiring them to reimburse Virbac for all bonuses or other incentive-based or equity based compensation received by them between 2001 and the first two quarters of 2003;

C. Extraordinary equitable and/or injunctive relief as permitted by law, equity and state statutory provisions sued hereunder, including attaching, impounding, imposing a constructive trust on or otherwise restricting the proceeds of defendants' trading activities or their other assets so as to assure that plaintiff on behalf of Virbac has an effective remedy;

D. Awarding to Virbac restitution from the defendants, and each of them, and ordering disgorgement of all profits, benefits and other compensation obtained by the defendants including all illegal proceeds from insider selling;

E. Awarding to plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

F. Granting such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: February 19, 2004

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VERIFICATION

I, RICHARD HRENIUK, say:

I am the plaintiff in the above-entitled action. I have read the foregoing VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT and know the contents thereof, and I certify that the same is true of my own knowledge, except as to those matters which are therein stated upon my information and belief, and as to those matters I believe it to be true.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 18th day of February, 2003 at New York, New York.

RICHARD HRENIUK